

**§ 227.201 What standards must a State comply with for performing delegated functions?**

(a) If MMS delegates royalty management functions to you, you must comply with the *Standards*. The *Standards* explain how you must carry out the activities under each of the delegable functions.

(b) Your delegation agreement may include additional standards specifically applicable to the functions delegated to you.

(c) Failure to comply with your delegation agreement, the *Standards*, or any of the specific standards and requirements in the delegation agreement, is grounds for termination of all or part of your delegation agreement, or other actions as provided under §§ 227.801 and 227.802.

(d) MMS may revise the *Standards* and will provide notice of those changes in the FEDERAL REGISTER. You must comply with any changes to the *Standards*.

**§ 227.300 What audit functions may a State perform?**

An audit consists of an examination of records to verify that royalty reports and payments accurately reflect actual production, sales, revenues and costs, and compliance with Federal statutes, regulations, lease terms, and MMS policy determinations.

(a) If you request delegation of audit functions, you must perform at least the following:

- (1) Submitting requests for records;
- (2) Examining royalty and production reports;
- (3) Examining lessee production and sales records, including contracts, payments, invoices, and transportation and processing costs to substantiate production and royalty reporting;
- (4) Providing assistance to MMS for appealed demands or orders, including preparing field reports, performing remanded actions, modifying orders, and providing oral and written briefing and testimony as expert witnesses.

(b) If necessary for a particular audit, you may also perform any of the following:

- (1) Issuing engagement letters;
- (2) Arranging for entrance conferences;

- (3) Scheduling site visits; and
- (4) Issuing record releases and audit closure letters; and
- (5) Holding closeout conferences.

**§ 227.301 What are a State's responsibilities if it performs audits?**

If you perform audits you must:

(a) Comply with the *MMS Audit Procedures Manual* and the *Government Auditing Standards* issued by the Comptroller General of the United States;

(b) Follow the MMS Annual Audit Work Plan and 5-year Audit Strategy, which MMS will develop in consultation with States having delegated audit authority;

(c) Agree to undertake special audit initiatives MMS identifies targeting specific royalty issues, such as valuation or volume determinations;

(d) Prepare, construct, or compile audit work papers under the appropriate procedures, manuals, and guidelines;

(e) Prepare and submit MMS Audit Work Plans. You may modify your Audit Work Plans with MMS approval; and

(f) Comply with procedures for appealed demands or orders, including meeting timeframes, supplying information, and using the appropriate format.

**§ 227.400 What functions may a State perform in processing production reports or royalty reports?**

Production reporters or royalty reporters provide production, sales, and royalty information on mineral production from leases that must be collected, analyzed, and corrected.

(a) If you request delegation of either production report or royalty report processing functions, you must perform at least the following:

- (1) Receiving, identifying, and date stamping production reports or royalty reports;
- (2) Processing production or royalty data to allow entry into a data base;
- (3) Creating copies of reports by means such as electronic imaging;
- (4) Timely transmitting production report or royalty report data to MMS and other affected Federal agencies as provided in your delegation agreement and the *Standards*;

(5) Providing training and assistance to production reporters or royalty reporters;

(6) Providing production data or royalty data to MMS and other affected Federal agencies; and

(7) Providing assistance to MMS for appealed demands or orders, including meeting timeframes, supplying information, using the appropriate format, performing remanded actions, modifying orders, and providing oral and written briefing and testimony as expert witnesses.

(b) If you request delegation of either production report or royalty report processing functions, or both, you may perform the following functions:

(1) Granting exceptions from reporting and payment requirements for marginal properties; and

(2) Approving alternative royalty and payment requirements for unit agreements and communitization agreements.

(c) You must provide MMS with a copy of any exceptions from reporting and payment requirements for marginal properties and any alternative royalty and payment requirements for unit agreements and communitization agreements you approve.

**§ 227.401 What are a State's responsibilities if it processes production reports or royalty reports?**

In processing production reports or royalty reports you must:

(a) Process reports accurately and timely as provided in the *Standards* and your delegation agreement;

(b) Identify and resolve fatal errors to use in subsequent error correction that the State or MMS performs;

(c) Accept multiple forms of electronic media from reporters, as MMS specifies;

(d) Timely transmit required production or royalty data to MMS and other affected Federal agencies;

(e) Access well, lease, agreement, and reporter reference data from MMS and provide updated information to MMS;

(f) For production reports, maintain adequate system software edits to ensure compliance with the provisions of 30 CFR part 216, the *PAAS Onshore Oil and Gas Reporter Handbook*, the *PAAS Reporter Handbook-Lease, Facility/Meas-*

*urement Point, and Gas Plant Operators*, any interagency memorandums of understanding to which MMS is a party, and the *Standards*;

(g) For royalty reports, maintain adequate system software edits to ensure compliance with the provisions of 30 CFR part 218, the *Oil and Gas Payor Handbook, Volume II*, "Dear Payor" letters, and the *Standards*; and

(h) Comply with the procedures for appealed demands or orders, including meeting timeframes, supplying information, and using the appropriate format.

**§ 227.500 What functions may a State perform to ensure that reporters correct erroneous report data?**

Production data and royalty data must be edited to ensure that what is reported is correct, that disbursement is made to the proper recipient, and that correct data are used for other functions, such as automated verification and audits. If you request delegation of error correction functions for production reports or royalty reports, or both, you must perform at least the following:

(a) Correcting all fatal errors and assigning appropriate confirmation indicators;

(b) Verifying whether production reports are missing;

(c) Contacting production reporters or royalty reporters about missing reports and resolving exceptions;

(d) Documenting all corrections made, including providing production reporters or royalty reporters with confirmation reports of any changes;

(e) Providing training and assistance to production reporters or royalty reporters;

(f) Issuing notices, orders to report, and bills as needed, including, but not limited to, imposing assessments on a person who chronically submits erroneous reports; and

(g) Providing assistance to MMS for appealed demands or orders, including preparing field reports, performing remanded actions, modifying orders, and providing oral and written briefing and testimony as expert witnesses.